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ER 84-319

No. NSDD 87

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

Executive Registry
84-319

January 17, 1984

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE ATTORNEY GENERAL
THE SECRETARY OF INTERIOR
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF ENERGY
THE SECRETARY OF TRANSPORTATION
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
THE DIRECTOR OF CENTRAL INTELLIGENCE
THE UNITED STATES TRADE REPRESENTATIVE
THE CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
THE CHAIRMAN, JOINT CHIEFS OF STAFF
THE ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT
THE DIRECTOR, FEDERAL EMERGENCY MANAGEMENT AGENCY

SUBJECT: Downgrading of Task 10 of NSDD 87 (U)

In response to a request from the Emergency Mobilization Preparedness Board and after review by the National Security Council Staff, Task 10 of National Security Decision Directive 87 has been downgraded as follows:

-- Section E, Energy Emergency Preparedness for Mobilization and War (referred to as Task 10), beginning at the bottom of page 17 and continuing through the bottom of page 18, may be downgraded to SECRET. (S)

The cover sheet and NSDD 87 continue to retain the overall TOP SECRET classification and should be handled accordingly. (U)

Robert M. Kimmitt
Executive Secretary

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TS0094/1-83

No. NSDD 87

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WASHINGTON

March 30, 1983

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE SECRETARY OF INTERIOR
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF ENERGY
THE DIRECTOR, OFFICE OF
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THE CHAIRMAN, COUNCIL OF
ECONOMIC ADVISORS
THE CHAIRMAN, JOINT CHIEFS OF STAFF
THE ADMINISTRATOR, AGENCY FOR
INTERNATIONAL DEVELOPMENT

SUBJECT: National Security Decision Directive - 87
Comprehensive U.S. Energy Security Policy (S)

The President has signed the attached National Security Decision Directive, setting out Comprehensive U.S. Energy Security Policy for Energy Emergencies. The NSDD concludes the comprehensive phase of the interagency work done under National Security Study Directive-9, but also directs a series of continuing studies to exercise U.S. energy security contingency planning. Those studies, their deadlines, and the Cabinet Councils in which they will be considered are indicated in the text of the NSDD, and are also attached as a separate list at the end of the NSDD. Cabinet Officers are directed to ensure that these studies are completed on schedule. The National Security Council staff will continue to provide central supervision over the timely submission and consideration of these studies. (TS)

FOR THE PRESIDENT:

William P. Clark

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Attachment
Tab A - National Security Decision Directive (NSDD-87)

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March 30, 1983

NATIONAL SECURITY DECISION DIRECTIVE 87

Comprehensive U.S. Energy Security Policy (S)

Within the guidelines of U.S. National Security Strategy (NSDD-32), this directive establishes a comprehensive U.S. energy security policy integrating the economic, foreign policy and national security interests of the United States to anticipate, prepare for, and respond to energy emergencies in the 1980s. (C)

The Administration's approach to a comprehensive energy security policy rests on three fundamental principles:

-- Primary reliance on the domestic and international marketplace both before and, to the extent possible, during an energy emergency.

-- Preparedness to enhance energy supplies in an emergency.

-- Provision of energy supplies for defense and broader national security purposes under all circumstances, both emergency and non-emergency. (C)

To implement these principles, Administration policies seek

-- to improve the functioning of the domestic and international marketplace before an emergency, so that the marketplace will operate with maximum efficiency once an emergency occurs.

-- to affect supply side factors in an emergency without controlling overall market price, supply and demand.

-- to ensure that the U.S. and its allies can acquire the necessary fuel supplies to meet Western security needs under all circumstances. (C)

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NSSD-9 initiated a process of energy emergency planning activities in four areas:

1. Projections of world (OECD, Communist countries and LDCs) energy supply, demand and trade in the 1980s and beyond to the year 2000.

2. Assessment of the sources and consequences of potential disruptions to world energy supplies.

3. Analysis of U.S. policy responses to the economic effects of potential disruptions, including policies existing before an emergency to deter the disruption and to ensure the most efficient operation of the marketplace once a disruption occurs.

4. Analysis of U.S. policy responses to the military effects of potential disruptions, including policies to ensure that U.S. and allied defense agencies can meet defense requirements in an emergency under both non-mobilization and mobilization circumstances. (S)

The conclusions reached in each of these areas are set out below. They provide a sound foundation and future guidelines for continuing interagency work on U.S. energy security policy. (C)

The Administration's energy security policy seeks to preserve maximum decision-making flexibility for dealing with emergencies when they occur. Since all the circumstances we are likely to face cannot be known until the emergency occurs, it would be unwise to lock the U.S. government into specific preconceived responses before an emergency. At the same time, it is imperative that the agencies anticipate, before the emergency, all conceivable circumstances which we may have to face and develop the necessary information, analysis and policy choices that policymakers will need to make rapid and well-informed decisions in an emergency. (C)

I therefore direct the responsible agencies to continue the planning activities initiated under NSSD-9 and to conduct all of their energy emergency planning, research and operational activities within the guidelines set out in this directive. (C)

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I. Projections of Supply and Demand

The success of long-term forecasts in predicting outcomes in the world energy market has been minimal. Projections remain vulnerable to assumptions about highly uncertain variables such as economic growth, energy prices and the response of supply and demand to changes in prices. Thus, Administration planning should project a range of plausible supply and demand forecasts based on varying assumptions about key variables and drawing critically on available forecasts in the private and public sectors. This range should be updated periodically using the same methodology of avoiding a single or consensus forecast. (S)

Most recent private and public sector forecasts of long-term supply and demand project the following range of possibilities:

-- Free World energy consumption will rise at an average annual rate through the 1980s of between 2.2-2.4%, based on an annual rate of growth of GNP ranging from 2.6-3.2%.

-- Natural gas consumption will grow between 2.3-2.6% per year through the year 2000, with Europe more than doubling its imports of natural gas from the Soviet Union and Africa.

-- Coal consumption will increase in a range from 3.2-3.9% per year through the year 2000, with coal trade increasing between Western Europe and its principal suppliers in the U.S. and Australia.

-- While coal and nuclear power will meet most of the projected growth in energy demand, oil will continue to provide between 40-50% of the Free World's total energy needs through the 1980s and 1990s, ranging from 48-53 mbd in 1990.

-- The Free World will remain dependent on OPEC oil for roughly half of its oil requirements through the 1990s, ranging from 23-29 mbd.

-- NATO countries (including the U.S.) will continue to depend on Persian Gulf oil, in the aggregate, for about 40% of their total oil imports in 1990, with individual country dependencies ranging from 25% to 60% of total oil imports.

-- World oil supplies will increase less than 1% annually through 1990 with non-OPEC productive capacity fully utilized except during periods of excessive oil market weakness. (C)

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A critical examination of the assumptions in these forecasts suggests a need for a wider range of possible outcomes. Accordingly, current Administration planning is based on a high GNP growth rate through the 1980s of 4% per year and a low growth rate of 2% per year. These assumptions yield a plausible range of free world oil consumption for 1990 of 48-55 mbd. At the upper end of this range, consumption will be pushing against available capacity, raising prices to $40 per barrel or higher in constant 1980 dollars. (S)

II. Potential Disruptions: Sources and Consequences

Oil Disruption Analysis

Since 1950, oil supplies from major exporting countries have been interrupted on 13 occasions. Hence, the probability of some sort of disruption occurring in the 1980s and 1990s is quite high. We cannot pinpoint with any accuracy where, when, or how severe such a disruption might be. All things considered, we believe the most secure sources of oil among the oil exporting developing nations are Mexico, Venezuela, and Indonesia. Saudi Arabia, the United Arab Emirates, and Nigeria would come next, not necessarily in that order. The least secure sources are Iraq, Iran, and in the near-term Kuwait, the latter, because of the external threats posed by Iran and Iraq. (TS)

Given estimates of oil export capacity and low and high levels of consumption, we have examined five possible classes of disruptions of oil export capacity. These include a Class I disruption (16-17 mb/d), Class II disruption (11 mb/d), Class III disruption (7 mb/d), Class IV disruption (4 mb/d), and a Class V disruption (2 million b/d). Disruptions of capacity need not equate with disruptions of supply given the existence of surplus capacity.

- Surplus export capacity in world oil markets is projected at 6-9 million b/d through 1985. The availability of this capacity in an emergency assumes that producers with surplus capacity will use that capacity (5-6 million b/d of current surplus capacity is located in the Persian Gulf) and that other producers will operate at or near capacity. Thus, the availability of this capacity represents an upper bound on potential oil supply to offset disruptions in the short-term.

- Projected surplus capacity would enable the world market to absorb a 2-4 mbd disruption -- Class IV and V -- through 1985.

- A Class III disruption in 1985 involving a 7 million b/d reduction in capacity in the Persian Gulf, however, would eliminate most, if not all, of this excess capacity.

- Major disruptions -- Class I and II -- would cause a net oil supply shortfall. Closure of the Strait of Hormuz would cause a 17 million b/d loss in export capacity resulting in a net oil shortfall on the order of 8-10 million b/d. A Class II disruption, such as a cut-off of supplies from

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Saudi Arabia, would lead to a 11 million b/d loss in capacity, resulting in a net shortfall of between 2-5 million b/d. (S)

If oil demand increases, especially toward the upper range we have projected, a gradual erosion of excess export capacity later in the decade would leave the world oil market increasingly vulnerable to supply disruptions by 1990:

- Oil demand at the high end of the forecasting range (55 mb/d) would leave the market vulnerable to even a Class V disruption. Only if demand approximates the low end of the range (48 mb/d) would the market be protected from Class IV or V disruptions.
- A major disruption in the Persian Gulf -- Class III -- involving the loss of 7 million b/d capacity would, however, eliminate most surplus export capacity even under a low demand scenario.
- A Class I disruption would cause a net supply short-fall on the order of 9-16 million b/d. (S)

Near Term Oil Market Outlook

The Iranian invasion of Iraq and the repeated threats by the Khomeini regime against other Persian Gulf countries raise the distinct possibility that much of the present surplus in production capacity could be quickly eroded by unpredictable events. Most forecasts expect oil demand will approximate 45-46 million b/d in 1983. With available capacity of 53-54 million b/d, surplus capacity should approximate 8 million b/d, an amount theoretically sufficient to withstand Class III, IV and Class V disruptions. However, since some 5-6 mbd of this surplus capacity is located in the Persian Gulf, violence in this area could quickly eliminate this surplus with consequences for actual and expected oil prices. (C)

Economic growth patterns will play a key role in determining the level of oil demand in the months ahead. If the world remains in an economic slump, oil consumption would probably continue to decline. A sharp economic recovery in 1983, however, could add as much as 1 million b/d to oil demand. Restocking by private companies could add an additional demand. Under these circumstances oil demand could rise to about 47 million b/d or above, reducing surplus production capacity to 7 million b/d or less. (C)

The escalation of the Iran-Iraq war could cause a loss of 4 million b/d in production capacity from the two countries. The market would still have sufficient surplus capacity to offset an additional 3 million b/d disruption. The reduced capacity cushion, however, suggests that oil prices would rise more sharply in the event of further disruptions associated with an escalation of the Iran-Iraq conflict:

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- Iranian intentions toward Persian Gulf supporters of Iraq could lead to attacks against key oil installations in these countries, resulting in a Class III disruption or larger with severe price pressures.

- Even short of such attacks, fears of Iranian reprisal, together with other factors, might influence the Saudis and Kuwait to keep production at or below present levels, effectively removing about 5 million b/d in surplus capacity from the market and, again, creating upward price pressures. (S)

Regardless of developments in the Iran-Iraq war, a Class I or Class II disruption would result in a significant net supply shortfall under any reasonable assumptions about supply and demand. (S)

Barring such unpredictable supply interruptions, the present oil glut may continue. The possibility of a sizeable oil price decline is growing. There are substantial positive effects that would accompany such a a decline: lower inflation, higher OECD growth, lower priced fuel and manufacturing imports in the developing countries, higher exports from developing countries to faster growing OECD markets, etc. (S)

On the other hand, lower oil prices could lead to increased economic and possibly political instability in oil exporting countries, heightened uncertainty in international financial markets and, if sustained, consequences for the production and development of alternative fuels. Administration planning should continue to examine the likely duration and consequences of oil price declines and consider alternatives for coping with the various consequences. (S)

Gas Disruption Analysis

Based on expected levels of gas consumption and imports, gas supply disruptions do not appear to pose a major threat to the United States, Japan or Western Europe in the next 5-6 years. Beginning in the late 1980s, however, growing dependence on imported gas could pose problems for Western Europe if the Soviet pipeline project proceeds and if measures are not taken to limit vulnerability. By 1990, gas supplies from the Soviet Union, Algeria and Libya could provide as much as 40% of total gas demand in Western Europe. While a simultaneous cut-off of supplies from all three sources is unlikely, Algeria and Libya could seek to exploit a Soviet cut-off to demand higher prices. (TS)

Coal Disruption Analysis

Coal supplies to Western Europe and Japan are relatively invulnerable to catastropic disruption. Over the longer term, however, growing reliance on steam coal imports may require greater consideration being given to assessment of choke-points in steam coal trade, protection of sea lanes for coal trade, adequacy of stocks in Western Europe and Japan, and flexibility in inter-fuel substitutions. (S)

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Microeconomic Impacts of Disruption

The price effects of Class I, II and III disruptions under differing assumptions are substantial. In a Class I disruption in 1990, these effects range from a price increase of 653% under assumptions of high consumption and low response capability to an increase of 50% under assumptions of low consumption and high response capability. In a Class III disruption in 1990, using the same respective assumptions, the price effects range from 100% to no increase.

- Potential price increases are larger in the later years of this decade as less excess productive capacity is available to offset supply losses.
- The higher the level of predisruption consumption, the greater the price effects.
- The lower the demand elasticity, the lower the private stock draw, and the lower the supply response by surplus capacity producers, the greater the price increase. (S)

Our analysis also shows the effects of supply disruptions on oil consumption. The closure of the Persian Gulf in 1990 would bring about a significant decline in U.S. and Free World consumption as a result of price-induced demand restraint. The decline in U.S. consumption could range from 1.9 million b/d in the low demand case to 4.7 million b/d in the high demand case, depending on the size of the demand response and stock behavior. The range in decline of Free World oil consumption is from 6 million b/d to 12.2 million b/d. (S)

Macroeconomic Impacts

Because of inadequacies in many existing models, the macroeconomic impacts of supply disruptions are difficult to measure. Some models fail to account for recent structural changes in energy use; others, while accounting for the changes, exaggerate the adjustment occurring in the short term. Administration planning should proceed on an urgent basis to develop an improved understanding of macroeconomic effects and practical methods for quantifying these effects, as has been done in the case of microeconomic effects. This effort should include a systematic evaluation of existing models and experimentation with other models. It should be co-chaired by DOE and NSC, with Treasury, CEA, OMB, OPD, and other interested agencies participating and result in recommendations to the CCNRE for decisions on policy and legislative actions no later than July 31, 1983. (S)

Although it is not now possible to quantify the macroeconomic effects of disruptions, Class I, II and possibly III disruptions would have substantial detrimental effects on the U.S. and world economies. As a result of the large price increases and wealth transfer associated with these disruptions, it is likely that these effects would be characterized by large inflationary pressures, significant unemployment, substantial deepening of the worldwide economic recession, and increasing debt burdens on poorer oil importers. (S)

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Political Impacts

As evidenced during the 1973 and 1979 disruptions, the U.S. and its allies are likely to be subjected to internal as well as external pressures in the event of a future disruption, both from domestic consumers seeking intervention to secure their energy needs and from oil producing countries seeking to extract political and economic concessions. These pressures represent a threat to the Administration's policy of relying primarily on the domestic and international marketplace and increase the urgency of planning designed to ensure that the marketplace operates not only efficiently, but acceptably. (C)

Military Impacts

Under conditions prevailing at the time, which included price and allocation controls, and cumbersome DOD procurement regulations, supply disruptions in 1973 and 1979 caused significant degradation of U.S. combat readiness despite exceptional efforts to secure fuel even at prevailing market prices. (C)

In 1973, operational and training activity was curtailed and severe conservation restraints were imposed. To supplement these measures, there were numerous incursions into war reserves in the United States and overseas. The Defense Production Act was invoked, giving DOD priority fuel deliveries. Further assistance was secured from the Voluntary Allocation Program under the amended Economic Stabilization Act and from allocation under the Emergency Petroleum Allocation Act of 1973. These measures and subsequent stabilization of the market alleviated the DOD shortage. (S)

In 1979, operational activities had already been reduced to minimum levels. Hence, to maintain essential operations during this disruption, a drawdown of war reserves was required. There was a reluctance to invoke the Defense Production Act. DOD representations to U.S. oil companies at the highest level eventually succeeded in securing assistance without invoking the Defense Production Act. (S)

In both 1973 and 1979, U.S. price and allocation controls exacerbated the problem of availability and contributed to DOD procurement difficulties. DOD efforts were also impeded by growing supplier dissatisfaction with cumbersome DOD procurement regulations, especially in 1979. (U)

III. Policy Responses to Economic Effects

Policies to Deter Disruptions of Energy Supplies

Energy security continues to be a major objective of U.S. foreign policy. U.S. efforts to deter major oil supply disruptions in the future and to reduce the magnitude of those which may occur are directed primarily toward the prevention of such disruptions at their source, the oil exporting countries, and toward the development of a united front with other major energy consuming countries. More specifically, we seek to: (S)

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-- Maintain strong and continued cooperation with other major energy consuming countries through the International Energy Agency and other mechanisms, as appropriate, to reduce panic, minimize economic dislocations and assure that individual countries do not suffer unacceptable harm as a result of a shortfall in oil supplies. Credible cooperation among consumers will deter politically motivated supply interruptions by producing countries. (C)

-- Develop and maintain positive political, economic and security relations with certain key producing countries to demonstrate that their interests are not served by oil supply disruptions, to develop economic relations that reinforce the production and exchange of oil, manufactured goods and financial assets, and to assist these countries, as appropriate, in their defense against outside aggression and internal unrest. (S)

-- Advance the peace process between Israel and the Arab states and assist in the resolution of other area conflicts. (C)

-- Deter Soviet, Soviet proxy, or other radical intervention in the Persian Gulf and other major oil producing regions. (S)

Possible new policy initiatives which have been identified as warranting further study include:

-- Seek an increase in IEA oil stockpiling requirements from 90 to 120 days of net imports.

-- Enter into competitive long-term contracts for the purchase of oil for the SPR in order to encourage producing countries to increase and maintain productive capacity and to foster reliable supply relationships.

-- Consider actions to foster a more favorable investment climate for energy resource exploration and development in non-oil-exporting LDCs. (S)

Policies to Improve the Marketplace and Enhance Supplies in an Emergency

A. The principle underlying U.S. energy policy during both "normal" and, to the extent possible, emergency circumstances is reliance on the market. Application of this principle has several implications for energy emergency preparedness:

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1. Remaining regulations limiting the flexibility of U.S. energy markets should be removed.

   a. Natural gas markets should be deregulated.

   b. Restrictions on exports should be reviewed. (C)

2. The primary mechanism to protect against the worst effects of sharp price increases or curtailed supplies in an emergency is maintenance of stockpiles. The Administration should refrain from adopting or signaling measures before an emergency that discourage private stockpiling and should continue to buildup and maintain the Strategic Petroleum Reserve as a key priority of energy emergency preparedness policy. (C)

3. The Strategic Petroleum Reserve will be used to protect vital national interests (e.g., national security, foreign policy, the economy). Its actual use will be determined at the time of an emergency, but Administration planning should actively simulate its use under varying assumptions to deal with the disruption scenarios developed in this study. DOE should complete this simulation work no later than June 30, 1983, and submit a summary to the CCNRE for review. (C)

4. The United States strongly supports the IEA and reaffirms its commitment to participate in the Agreement on an International Energy Program, but seeks to encourage over time greater use of markets and supply-enhancing measures in the operation of the Emergency Sharing System and other IEA programs, both before and during emergencies. The United States is prepared to consult and cooperate with IEA partners toward these ends, especially to foster market pricing of energy supplies, to increase stock levels and to exchange information on national use of stocks. (S)

5. Measures which facilitate the functioning of domestic and international markets should be developed.

   a. The Federal Government should continue to develop in advance an integrated/coordinated emergency public information plan.

   b. The Administration should closely monitor and analyze the possible effects during disruptions of any inflexibilities that may develop in international markets by virtue of direct and indirect government involvement in crude oil purchases, the existence of state monopolies, national price controls and allocation systems, and other restrictive national policies. (C)

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6. The greatest possible efforts should be taken to preclude future application of price controls or allocations during a supply disruption. This is necessary to repair the damage done by previous controls and to enhance private incentives to stockpile, develop resources, and invest in energy efficient capital stock. (C)

7. The U.S. should intensity its efforts to foster efficient development and use of Western energy resources, especially to protect against Western European vulnerability to gas supply disruptions in the late 1980s. U.S. efforts should entail:

   a. Encouragement of the development by Western European countries of the Norwegian Troll gas field.

   b. Strong support for the International Energy Agency natural gas security study.

   c. Aggressive pursuit of the energy studies called for in the Summary of Conclusions recently concluded by the Western allies. (C)

B. Further review should be done on various collateral issues.

1. Monetary or fiscal policy measures might be used to mitigate the adverse income effects of an oil supply disruption. Administration planning should conduct an analysis of the effects of these measures on the disruption circumstances investigated in this study and present this analysis to the Cabinet for review. This analysis should be co-chaired by DOE and the Department of Treasury and be submitted to the CCNRE and the CCEA for review and recommendations no later than December 31, 1983. (C)

2. Various self-help measures should be investigated further, including those which might be useful to state and local governments such as the use of futures markets to hedge against price shocks. (C)

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IV. Policy Responses to Military Effects

The essential energy needs of United States defense forces will be met so that, during a disruption emergency, defense readiness is maintained and the capability to sustain combat operations is not degraded. To the extent that we can limit the impact of an energy disruption on that portion of the domestic industrial base that provides material and service support to the military (particularly industrial and transportation assets), DOD and its contractors can meet their respective needs by drawing on the marketplace as normal participants. The thrust of U.S. policy, therfore, is to ensure that in the context of a free market approach, Defense can be an effective competitor in the marketplace with stand-by authorities available to improve competitive capability during a crisis and to supplement market processes, if ultimately deemed necessary by the President or his designate. This policy implies:

-- Defense energy consumers will pay the prevailing market price.

-- Should market procurement, by paying the prevailing price, not prove adequate to meet defense needs, the authority for appropriate non-market measures will be available to the President or his designate for implementation as the situation may demand.

-- Thorough pre-crisis planning and exercising will be used as a means to acquaint both government and private sector decision-makers with the use of the marketplace to meet defense needs in a crisis (assuming the DPA has not been invoked), and the possible use and effects of various non-market measures, if these should be required by the situation at the time.

-- Because of the military's first reliance on overseas sources for its overseas consumption of fuel products and because of the important security contributions of foreign friends and allies, the international, as well as domestic, aspects of energy emergencies are an integral part of U.S. energy emergency preparedness policy. (S)

A. Non-Crisis Market Circumstances

1. DOD should participate in the U.S. domestic marketplace on a competitive basis with comemrcial buyers. The DOD should continue to develop regulatory and legislative measures which will remove obstacles to its ability to participate in the market on a competitive basis. More specifically, the following obstacles have been identified as being worthy of particular emphasis:

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a. Eliminate the requirement to obtain cost data in the procurement of petroleum products. Procurement pricing should be based exclusively on sales market data.

b. Increase the small purchase threshold for petroleum products from $25,000 to $100,000. (C)

2. To the maximum degree possible, consistent with security requirements, the private sector should be brought into a planning partnership with responsible government agencies prior to the outset of an emergency. DOE and DOD should co-chair a study, with Justice participating, that analyzes the issues and develops legislative options concerning conflict-of-interest, antitrust and Federal Advisory Act constraints on the participation of industry representatives in pre-crisis planning to meet defense fuel needs in a disruption, including the use of National Defense Executive Reserves, Voluntary Agreements and Advisory Committees. Proposals should be submitted (through the SIG-IEP) to the NSC for decision no later than May 31, 1983. (C)

B. Meeting Domestic DOD Requirements in Disruption Circumstances Assuming No Mobilization

1. Existing DOD policies to access the domestic market during a disruption include:

a. Intensifying procurement actions through resoliciting bids to find able and willing suppliers and waiving/modifying non-essential socioeconomic or other regulations which may impede effective procurement in an emergency.

b. DOD/DOE jaw-boning with industry to optimize voluntary supply responses.

c. Bidding for SPR oil if drawdowns are being made.

d. Possible use of the Defense Production Act to assure DOD and its contractors of priority access at competitive prices to supplies in the marketplace. (S)

DOD, with assistance from DOE, should further examine the modalities for applying these policies and the authority needed to make them effective. If necessary, proposals including required legislation, should be submitted no later than June 30, 1983 through the SIG-IEP to the NSC for decision. Specifically,

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a. Legislation to permit the waiver of procurement regulations during disruptions should be submitted to Congress with DOD's 1983 legislative program.

b. Procedures to implement the Defense Production Act should be improved to increase responsiveness to permit refiners to pass along their DPA order to their suppliers when necessary to obtain supplies for a DPA product order. (S)

2. During crises, effective private sector involvement in planning activities is also important. DOE and DOD should include an analysis and recommendations on constraints on private sector participation in planning during crises as part of their co-chaired effort discussed above in IV A 2. (S)

3. The authority to use non-market measures in national security emergencies is necessary to give responsible policymakers flexibility to deal with circumstances that can be judged only as they arise. These measures should be used only when they are clearly necessary to achieve essential national security objectives and not as an automatic response to all national security emergencies. DOD and DOE should conduct a further analysis to determine how DOD will obtain its essential energy requirements in the domestic market and to acquaint decision-makers with those situations which may call for implementation of certain of the standy-by measures which are within the policy framework of this Decision Directive. This analysis should:

a. Investigate, as thoroughly as the data will allow, the detailed impact of the disruptions identified in NSSD-9 on the domestic marketplace and DOD's access to needed supplies in this marketplace.

b. Determine the budgetary, legislative and other requirements to ensure that DOD can meet its needs in the marketplace under the projected disruption circumstances, should decision-makers decide against authorizing the use of non-market measures.

c. Further evaluate the adequacy of existing authorities to use individual non-market measures if needed.

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d. Determine if other measures should be authorized under certain circumstances for potential use by decision-makers.

DOE should provide full support to DOD on the above analysis. OMB, CEA and other agencies will be full participants in this analysis. Emphasis will be on enabling DOD to operate more effectively in the marketplace to meet its needs while ensuring that measures are adequate and available to supplement market processes if ultimately deemed necessary by the President or his designate. The possibly strong budgetary impact of DOD paying market prices must be included. This work should be completed and forwarded (through SIG-IEP) to the NSC for decision no later than September 30, 1983 (S)

C. Meeting Overseas U.S., Allied and Friendly Nation Military Energy Requirements Assuming No Mobilization

For cost-effectiveness reasons, DOD normally acquires fuel for overseas use from suppliers located close to the immediate defense user. Hence, DOD must be able to procure effectively and at market prices in these foreign markets which are not subject to U.S. law/regulations and may not reflect the priorities of U.S. domestic energy policy. Failure to acquire needed products from foreign suppliers will result in the triggering of various international agreements (i.e., NATO, Host Nation Support) to obtain supplies overseas or in the transportation of supplies from the U.S. with a concomittant increase in domestic demand for fuel and transportation assets. (S)

One of the principal concerns of U.S. coalition security policy is the adequacy of fuel supplies for the military components of key allies and friendly nations. Each coalition member will be expected to provide for its own wartime logistics support. Nevertheless, the possibility that the U.S. may be called upon to respond to military fuel shortages of coalition partners in some situations threatening national security is accepted as a problem which must not be ignored. (S)

1. Existing Policies: The U.S. commitment to participation in the NATO Senior Civil Emergency Planning Committee, the Joint U.S.-South Korean Petroleum Committee, along with on-going bilateral discussions, constitute the basis with which to deal with problems of meeting U.S. overseas and allied military requirements. Yet to be addressed are the levels and methods for more effective U.S. participation in these fora. DOE should chair this continuing analysis, working with DOD and State to better define U.S. participation with special attention to the following key issues:

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a. The relationship between the IEA and NATO oil sharing plans under various scenarios.

b. The relationship of IEA and NATO planning to relations with key non-IEA, non-NATO countries.

c. Analysis and options concerning antitrust defense for participation in the NATO Wartime Oil Organization and related activities (this particular part of the study should be done under the auspices of the DOE and DOD co-chaired group under Part IV A 2).

The analysis and recommendations in this section should be completed and forwarded (through SIG-IEP) to the NSC for decision no later than July 31, 1983. (S)

2. DOD should chair further interagency analysis to determine how it might respond to threatened cut-backs in deliveries to U.S. forces and stocks overseas.

a. DOD should provide information to DOE concerning its peacetime overseas product requirements and traditional overseas suppliers.

b. DOE should examine the behavior of overseas supply systems in meeting U.S. military needs abroad during various disruption scenarios. This analysis should include the inpact of disruptions on the domestic and other requirements of DOD's traditional overseas suppliers. Emphasis should be on potential shortfalls and prices.

c. Options for U.S. response to identified problems should be jointly examined by DOE, OMB, DOD and State. Options should focus on pre-crisis preparations and include crisis intervention measures such as political jaw-boning and transportation of supplies from CONUS as means to forestall or compensate for possible delivery cut-backs.

d. As a part of this analysis, meeting allied and friendly nation military requirements should be addressed, to include potential shortfalls, and means to overcome problems.

The analysis and recommendations in this section should be completed and forwarded (through the SIG-IEP) to the NSC for decision no later than December 31, 1983. (S)

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D. Economic/Financial Viability of Key U.S. Allies and Friendly Nations.

Although measures may be successful in assuring the provision of adequate supplies to the Armed Forces of U.S. allies and friends, for some of these allies and friends the impact of a major energy emergency may impose severe strain on their economic and financial well-being. This can have deleterious effects on U.S. security interests. United States policy is to seek to minimize such effects since they can significantly burden U.S. defense resources at the potential expense of other security priorities. As a first step, the United States should encourage its allies and friends to take actions and develop plans to minimize these effects. However, there may arise a need for possible U.S. steps to assist friends and allies. The means and costs of such steps are not well defined. State, with assistance from DOD, should continue to chair the study of the general macro-micro economic and security implications of energy shortages for key U.S. allies and friendly nations. As a first step, this examination should include at least the following key countries: Turkey, Israel, Portugal (others to be decided in conjunction with State). Primary issues to be addressed include:

1. The degree of economic vulnerability to energy disruptions.

2. Adequacy of local measures to deal with this vulnerability, including pre-crisis measures which the foreign nation could adopt to decrease the impact of an emergency.

3. Possible U.S. or international policy alternatives, including at least a discussion of limited economic and security assistance, to address the identified vulnerabilities and to deal with their consequences in a crisis.

The analysis and recommendations in this section should be completed and forwarded (through the SIG-IEP) to the NSC for decision no later than December 31, 1983. (S)

E. Energy Emergency Preparedness for Mobilization and War

Energy emergency circumstances which occur in conjunction with defense-related civilian economic mobilization introduce problems and considerations of a nature and magnitude which are distinct from those expected to prevail during an energy emergency in a non-mobilization situation. Emergency Mobilization Preparedness policy is enunciated in National Security Decision Directive 47. The potential impacts of an energy emergency during mobilization and/or armed conflict must receive additional attention. Accordingly, the Emergency Mobilization Planning Board is directed to establish

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an Energy Emergency Preparedness Working Group chaired by DOE with participation of DOD, NSC, OMB, Treasury, State, FEMA, and other agencies as appropriate. This group shall develop a plan of action within 150 days of the signing of this directive, or no later than June 30, 1983, including, but not limited to those issues identified below:

1. An examination of the adequacy of existing energy policies and procedures for use during mobilization and wartime including the Defense Production Act, participation in the NATO Wartime Oil Organization, and Host Nation Support commitments from allies and friendly nations.

2. A review of worldwide requirements of U.S. military forces, including approaches to meet these requirements in various theaters of potential conflict.

3. An analysis of the requirements of defense-related industries, transportation services, and other domestic sector security components during surge, mobilization, and war-time circumstances, quantifying these requirements and identifying the means for meeting them.

4. Measures to assure that allied and friendly nation military requirements are met. (TS)

The Energy Emergency Preparedness Working Group shall, as a first order of business, examine the disruption scenarios developed in NSSD-9 and consider in each scenario additional energy requirements imposed by mobilization to deal with the following situations:

1. A Middle East conflict.

2. A conflict in Europe, Asia or both.

3. A Middle East conflict and conflicts in Europe, Asia, or both. (TS)

Particular attention should be devoted to those measures which might be undertaken prior to or during an energy supply disruption so as to assure that the United States' capability to subsequently mobilize and fight a war will not be significantly degraded or impaired. (S)

Ronald Reagan

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SCHEDULE OF FOLLOW-UP STUDIES

Part II

1. Macroeconomic Impacts (See p. 7 of NSDD)

DOE and NSC, Co-Chair — CCNRE
CCNRE Working Group — July 31, 1983

Part III

2. SPR Drawdown Simulations (See p. 10 of NSDD)

DOE, Chair — CCNRE
June 30, 1983

3. Monetary and Fiscal Policy Responses (See p. 11 of NSDD)

DOE and Treasury, Co-Chair — CCNRE and CCEA
December 31, 1983

Part IV

4. Legislation to Facilitate Private Sector Participation in Pre-Crisis and Crisis Planning for Meeting Defense Needs (See p. 13 of NSDD)

DOE and DOD, Co-Chair — SIG-IEP
May 31, 1983

5. Improving Existing DOD Policies to Access Domestic Market in a Crisis (See p. 13 of NSDD)

DOD, Chair — SIG-IEP
June 30, 1983

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6. Studies on Meeting DOD Needs in Domestic Market During a Crisis (See p. 14 of NSDD)

DOE and DOD, Co-Chair — SIG-IEP, September 30, 1983

7. Improving Existing DOD Policies to Access Foreign Markets in a Crisis (See pp. 15-16 of NSDD)

DOE, Chair — SIG-IEP, July 31, 1983

8. Studies on Meeting DOD Needs in Foreign Markets During a Crisis (See p. 16 of NSDD)

DOD, Chair — SIG-IEP, December 31, 1983

9. Studies of Viability of Allied and Friendly Nations in a Crisis (See p. 17 of NSDD)

State, Chair — SIG-IEP, December 31, 1983

10. Studies on Meeting DOD Needs in Mobilization and War (See pp. 17-18 of NSDD)

DOE, Chair
Energy Emergency Preparedness Working Group — EMPB, June 30, 1983

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